

OPEN MEETING AGENDA ITEM



A subsidiary of Pinnacle West Capital Corporation



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Chairman of the Board

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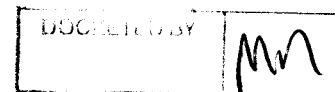
ORIGINAL

November 14, 2008

Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kristin K. Mayes
Commissioner Gary Pierce
ARIZONA CORPORATION COMMISSION
1200 W. Washington
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

11/14/2008



Re: Arizona Public Service Company (Interim Rates); Docket No. E-01345A-08-0172

Dear Commissioners:

At its most basic, the regulatory process in Arizona should be responsive to the needs of Arizona. That is why the Arizona Corporation Commission was created nearly a century ago. At this juncture, Arizona needs very significant investment in a broad range of new infrastructure to assure its energy future and independence. These investments range from Solana and other large-scale solar generating plants to new technology in electric metering and a "smarter" more reliable electric distribution system.

But without the financial strength to maintain even minimal levels of credit-worthiness, APS will simply not be in a reasonable position to raise the billions of dollars of new capital needed to make the investments critical to this state. Solana and similar projects will be placed at risk or made impossible. Even if the capital could be raised, it would come at a large premium – burdening Arizona consumers with as much as another \$3 billion in higher interest costs. In other words, a failure to increase prices to consumers now means significantly higher costs later.

An APS that is financially capable of meeting the needs of Arizonans, now and in the future, has always been a critical driver of Arizona's economy. During the worst financial market turmoil in decades, maintaining our ability to access capital investment has become much more difficult and at the same time, more essential to the survival of capital-intensive businesses such as APS. Compounding this challenge is the hard fact that Arizona is not viewed by investors as a state that encourages new investment.

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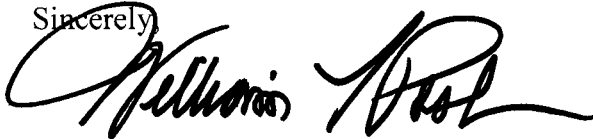
Page 2

How did we get here? APS' current prices do not cover the cost of providing electric service. This is true despite the fact that APS has eliminated more than 500 employee positions in the past year and now has fewer employees than 20 years ago. Operating expenses have been cut by approximately \$50 million. Similarly, more than \$700 million of future capital expenditures have either been eliminated or postponed. The failure to recover our costs of providing service has been ongoing for years, but has now led APS to the current credit emergency that prompted our request to the ACC for interim rate relief.

We understand that increasing electric prices is difficult during the best of times. However, APS is not seeking a bailout from taxpayers. Rather APS is seeking to recover actual costs incurred. Moreover, the level of rate relief sought is consistent with or less than that requested, and in some cases already received, by Arizona's other two major electric providers.

This is where the role of regulatory leadership comes in. Arizona needs the ACC to act now at this critical juncture for the state and the more than one million APS customers. The stakes are very high; and the risks of inaction or the wrong action are both very real and very dangerous to consumers and Arizona.

Sincerely,

A handwritten signature in black ink, appearing to read "William A. Bush". The signature is fluid and cursive, with a large initial "W" and a long, sweeping underline.

WJP;lgr

cc: Docket Control
Lyn Farmer
Brian McNeil
Rebecca Wilder